

DATE: October 12, 2010

TO: Mayor and City Council, Housing Authority, Redevelopment Agency

FROM: Director of Finance

SUBJECT: Annual Investment Review, Adoption of Statement of Investment Policy, and Delegation of Investment Authority

RECOMMENDATION

That Council adopts the attached resolutions, accepting the Annual Investment Report, reaffirming the Statement of Investment Policy, and delegating investment authority to the Director of Finance.

SUMMARY

The annual investment review provides the Council with the opportunity to review annual investment activity, review and approve the Statement of Investment Policy, and approve the annual delegation of authority resolutions.

Staff is proposing three changes to the Investment Policy: 1) an increase to the maximum Local Agency Investment Fund (LAIF) investment deposit amount from \$120 million to \$150 million, 2) a change to the reporting schedule to provide formal quarterly investment reports rather than monthly reports, and 3) the addition of two appendices for reference.

DISCUSSION

FY 2010 continued to experience a severe economic recession, which resulted in very low interest rates available for investment. Portfolio yield and earnings dropped dramatically in FY 2010 compared to the prior year, with FY 2010 averaging a 1.14% yield and interest earnings of \$2,249,087. The City relied on the LAIF for its short-term investment needs, as the LAIF rate was better than other short-term investment options, with the added benefit of same-day liquidity.

FY 2010 Annual Investment Review – The annual review (Attachment II) provides the Council with the opportunity to review the investment portfolio's annual activity and compare that activity to ensure compliance with the policy.

Investment Activity – Staff continued to maintain the principles of prudent investment, which include safety, liquidity, and yield.

Safety - During FY 2010, the City's portfolio did not experience any losses of capital investment or principal. Credit ratings on investments were closely watched. All securities and notes were held in a safekeeping trust account by Bank of the West.

Liquidity - The City takes advantage of LAIF, which provides for same day liquidity and interest rates that are higher than other short term rates. The Investment Policy requires that no more than 40% of the portfolio may be invested beyond 12 months and that the average maturity shall not exceed 400 calendar days. The City has met this liquidity requirement every month throughout the fiscal year.

Yield - The following chart provides a five-year performance overview for the investment program:

(\$ in 000's)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Annual Average Portfolio Yield	3.79%	5.06%	4.59%	3.06%	1.14%
Annual Average Accrued Interest	\$5,881	\$8,643	\$8,434	\$5,410	\$2,249
Annual Average Portfolio Balance	\$162,458	\$177,590	\$184,095	\$180,424	\$177,241

For FY 2010, unaudited portfolio interest totaled \$2.249 million; a decline of \$3.161 million from the previous year. The decrease in unaudited portfolio interest was expected due to the effects of a severe economic recession, which resulted in a reduction in the interest rates available for investment.

The City's portfolio yield/rate of return exceeded the established goal yield every month during FY 2010. The goal yield is established in the Investment Policy as a rate that is 50 basis points greater than the average of the threeand six-month US Treasury Bill rates.

The Investment Advisory Committee (IAC)– The IAC met four times in FY 2010 to review the investment program. The City Manager appoints the IAC for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the Investment Policy as approved by the Council. The Committee consists of the Assistant City Manager (currently vacant); the City Attorney (represented by Assistant City Attorney Conneely); two department heads appointed by the City Manager (represented by Fire Chief Bueno and Maintenance Services Director McGrath); a member of the finance academic community (represented by Professor Zock from California State University, East Bay), and a member of the banking community (represented by Mr. Stoddard of Union Bank).

Investment Policy Violation - LAIF Deposit Limit - City investment policy states that the maximum LAIF deposit amount is \$120 million. Effective November 16, 2009, LAIF increased the maximum deposit limit to \$50 million per account or \$150 million total since Hayward has three LAIF accounts. Following the LAIF policy change, staff exceeded the City's Investment Policy limit of \$120 million for four months. The overages were as follows: \$1.5 million (December 2009), \$1 million (January 2010), \$5.7 million (February 2010), and \$4.5 million (March 2010).

The over investment in LAIF was a City policy violation, however, this violation was not called out in the monthly reports. When LAIF increased the allowable deposit limit, investment staff did not have controls in place to limit our deposits. Staff recently implemented additional controls in order to avoid this situation in the future. Staff advised the Investment Advisory Committee of this issue during the July 28, 2010 quarterly meeting. Staff has reviewed all Investment Policy requirements, has instituted new investment limit controls, and will verify all Investment Policy limitations are met prior to making future investment decisions. Staff corrected the issue in April 2010 and ended the year by meeting all Investment Policy requirements.

Statement of Investment Policy—The Council annually reviews and approves the City's Statement of Investment Policy (Attachment III). The objectives of the Investment Policy include capital preservation (safety); minimizing potential for capital losses from market changes by remaining sufficiently liquid to meet operating requirements (safety and liquidity); and achieving a reasonable rate of return (yield). The current Investment Policy meets the requirements of the California Government Code.

The Investment Policy including staff's recommended changes noted below was reviewed by the Investment Advisory Committee on September 14, 2010, and by the Council Budget and Finance Committee on September 22, 2010.

Staff Recommendation – Change to Investment Policy - Staff recommends three changes to the Investment Policy: 1) an increase to the maximum LAIF investment deposit amount from \$120 million to \$150 million, 2) a change to the reporting schedule to provide formal quarterly investment reports rather than monthly reports (monthly reports will continue as informal reports to the City Manager and the Investment Advisory Committee only), and 3) the addition of two appendices for reference.

- 1) LAIF is the City's short-term investment option of choice due to its same day liquidity and competitive rates. The City has three accounts with LAIF (City, Redevelopment Agency, and Housing Authority). The current Investment Policy maximum deposit limit per account is \$40 million, for a total of \$120 million. Staff recommends increasing the Investment Policy limit to \$50 million per account, for a total of \$150 million, to match the maximum deposit limit allowed by LAIF. This change meets the requirements of the California Government Code. The last time the LAIF deposit limit was changed was January 1, 2002 (from \$30 to \$40 million per account).
- 2) Staff currently provides a detailed, formal monthly investment report to the City Manager, Investment Advisory Committee, and City Council. Staff recommends changing the Investment Policy to provide a monthly summary report to the City Manager and Investment Advisory Committee only. A detailed formal quarterly report will be presented to the City Manager, Investment Advisory Committee, and City Council, and placed on the next immediate Council Budget and Finance Committee agenda for review and discussion.

The change is being proposed due to the low level of activity in the investment portfolio.

Staff has reviewed this recommendation with the City Auditors, who have concurred that the proposed quarterly reporting schedule meets the requirements of the California Government Code.

- 3) Staff is proposing adding two appendices to the Investment Policy as an additional reference. Appendix A provides the reader with a summary of credit ratings, while Appendix B provides a glossary of investment terms. This information is being added to provide the reader with an additional reference.

Annual Adoption of Delegation of Investment Authority - The Council annually affirms the delegation of investment authority in the attached resolutions (Attachments I a-c), authorizing the Director of Finance to conduct investment activities for the City, Redevelopment Agency, and Housing Authority.

FISCAL IMPACT

Unaudited interest income for FY 2010 totaled \$2,249,087, which is approximately 2% or \$35,872 more than budgeted.

PUBLIC CONTACT

The Investment Advisory Committee reviewed the Annual Investment Report and Statement of Investment Policy on September 14, 2010, and meets quarterly to review general investment strategies and monitor results. The Budget and Finance Committee reviewed the Annual Investment Report and Statement of Investment Policy on September 22, 2010.

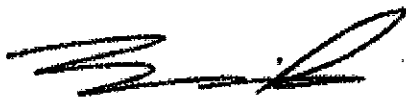
SCHEDULE

This report is prepared annually in compliance with the City and State requirements.

Prepared by: Denise Blohm, Budget Administrator

Recommended by: Debra C. Auker, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

- Attachment I:** Resolutions (3)
I-a – City – Accepting Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
I-b – Housing Authority – Accepting Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
I-c – Redevelopment Agency – Accepting Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
- Attachment II:** FY 2010 Annual Investment Review
- Attachment III:** FY 2011 Statement of Investment Policy

HAYWARD CITY COUNCIL

RESOLUTION NO. 10-

Introduced by Council Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE CITY
OF HAYWARD, REAFFIRMING THE STATEMENT OF
INVESTMENT POLICY AND RENEWING THE
DELEGATION OF AUTHORITY TO MAKE INVESTMENTS
TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No. 09-146, dated October 06, 2009, the City Council adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the report entitled "FY 2010 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October 12, 2010

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City Of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

HOUSING AUTHORITY OF THE CITY OF HAYWARD

RESOLUTION NO. 10-

Introduced by Commissioner _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE CITY
OF HAYWARD HOUSING AUTHORITY, REAFFIRMING THE
STATEMENT OF INVESTMENT POLICY AND RENEWING THE
DELEGATION OF AUTHORITY TO MAKE INVESTMENTS
TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No. HA 09-01, dated October 06, 2009, the Housing Authority Board adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the Housing Authority Board of the City of Hayward that the report entitled "FY 2010 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October 12, 2010

ADOPTED BY THE FOLLOWING VOTE:

AYES: COMMISSION MEMBERS:

CHAIR:

NOES: COMMISSION MEMBERS:

ABSTAIN: COMMISSION MEMBERS:

ABSENT: COMMISSION MEMBERS:

ATTEST: _____
Secretary of the Housing Authority
of the City Of Hayward

APPROVED AS TO FORM:

Counsel of the Housing Authority for
the City of Hayward

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA- 10-

Introduced by Agency Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE
REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD,
REAFFIRMING THE STATEMENT OF INVESTMENT
POLICY AND RENEWING THE DELEGATION OF
AUTHORITY TO MAKE INVESTMENTS TO THE DIRECTOR
OF FINANCE

WHEREAS, by Resolution No. RA 09-20, dated October 6, 2009, the Agency Members adopted a Statement of Investment Policy for the RDA for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the Agency Members of the RDA of the City of Hayward that the report entitled "FY 2010 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October 12, 2010

ADOPTED BY THE FOLLOWING VOTE:

AYES: AGENCY MEMBERS:

CHAIR:

NOES: AGENCY MEMBERS:

ABSTAIN: AGENCY MEMBERS:

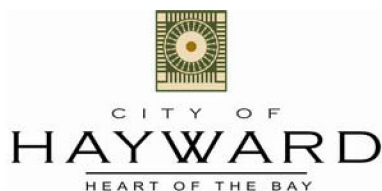
ABSENT: AGENCY MEMBERS:

ATTEST: _____

Secretary of the Redevelopment Agency
of the City Of Hayward

APPROVED AS TO FORM:

General Counsel



FY 2010 Annual Investment Review

Summary

The annual review provides an overview of the year's investment activities.

The annual review is provided to the City Council as a supplement to monthly investment reports. The annual review is prepared in compliance with the City of Hayward Investment Policy and California Government Code. The purpose of the report is to apprise the members of the City Council on the performance, composition, quality, diversity, and liquidity of the City investment portfolio during the preceding fiscal year.

The report provides an opportunity for the City Council to conduct its review, and annually adopt the Statement of Investment Policy in accordance with City and State requirements; and to amend the policy as recommended or as required to meet local needs or legal requirements.

FY 2010—Year In Review

Staff continued to maintain an emphasis on safety, liquidity, and yield in FY 2010.

FY 2010 unaudited portfolio interest totaled \$2.249 million, which was a decline of approximately 58% or \$3.161 million from the previous year. Rates available for investment in FY 2010 were extremely low. FY 2010 annual portfolio yield was 1.14%, which was a decline of approximately 63% (192 basis points) from the previous year. The decline was expected due to the effects of a severe economic recession, which caused a reduction in interest rates available for investment. As available interest rates declined, short-term investments were shifted into LAIF, due to LAIF's competitive rate of return and same day liquidity. For FY 2010, average monthly cash available for investment was \$177 million, which was a decline of approximately 2% (\$3.2 million) from the previous year.

Prudent management, along with a sound Investment Policy have ensured a solid Investment Program.

FY 2010 Overview

- **\$2.2 million**—unaudited annual interest income.
- **1.14%**—average annual yield.
- **\$177 million**—average monthly cash available for investment.

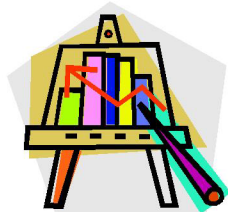
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Annual Average Comparison

(\$ in 000's)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Annual Portfolio Yield	3.79%	5.06%	4.59%	3.06%	1.14%
Annual Accrued Interest	\$5,881	\$8,643	\$8,434	\$5,410	\$2,249
Annual Avg Portfolio Balance	\$162,458	\$177,590	\$184,095	\$180,424	\$177,241



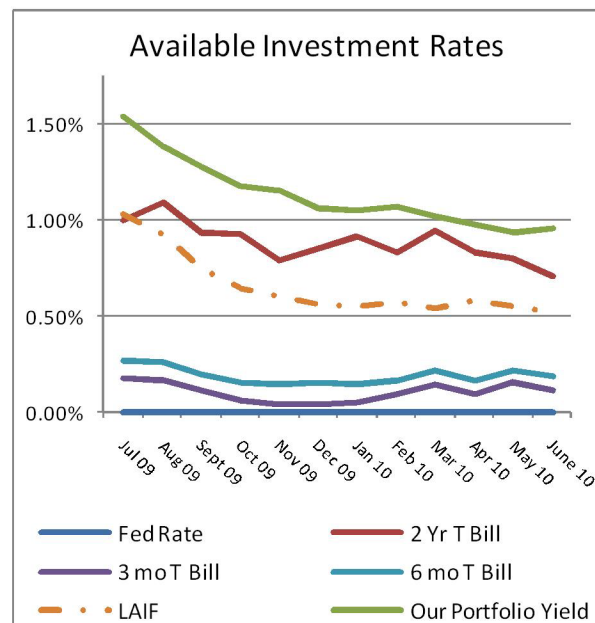
Available investment rates are determined by national economic conditions.

Available Investment Rates

FY 2010 rates available for investment remained very low, as the economy remained in an economic downturn.

The chart highlights the low rates available in short and medium term maturities in FY 2010. Rates under one year have remained extremely low. Of particular note, the LAIF rate followed the decline of other rates, but declined at a slower rate, due to LAIF's longer maturity period.

In December 2008, the Federal Reserve went to a federal funds rate of 0.25-zero percent. The rate has not changed since. This is what news reports refer to when they talk about the Fed changing interest rates.



Portfolio Yield

For FY 2010, the portfolio earned an average yield of 1.14%.



Yield is the percentage of annual return on investment.

In FY 2010, rates available for investment were very low. As rates available for investment declined, so did the overall investment portfolio yield. The average annual yield declined approximately 63% (192 basis points).

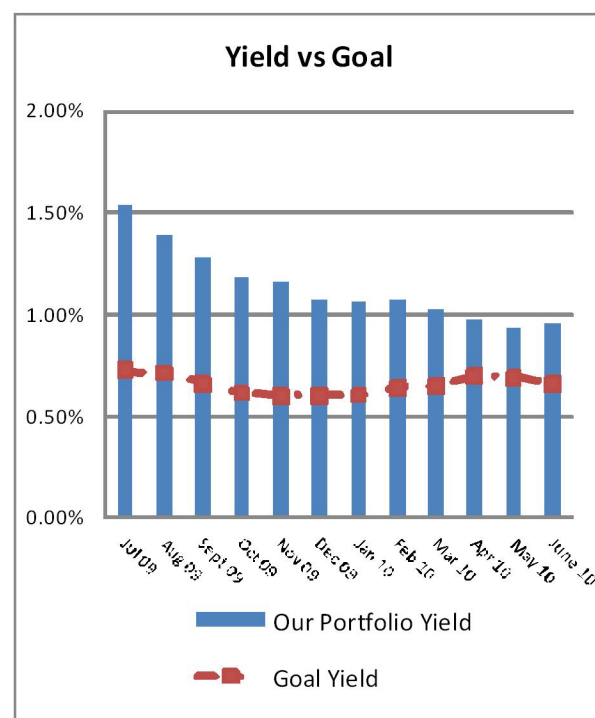
The yield decrease was a result of two factors. First, the maturation or call of higher yielding securities; followed by the purchase of lower yielding securities. Second, a drop in rates aided to the decline.

It should be emphasized that the Statement of Investment Policy states that the portfolio is to be managed with an emphasis first on safety, then on liquidity, and finally on yield.

Therefore, it should be emphasized that the need to maintain quality, diversity, and liquidity constrain the ability to maximize yield.

The chart highlights the FY 2010 portfolio yield versus the goal yield. The chart shows a steady

decline in the portfolio yield, while the goal yield dropped, leveled off, then began to increase.

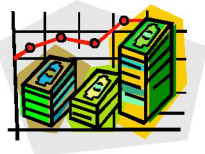
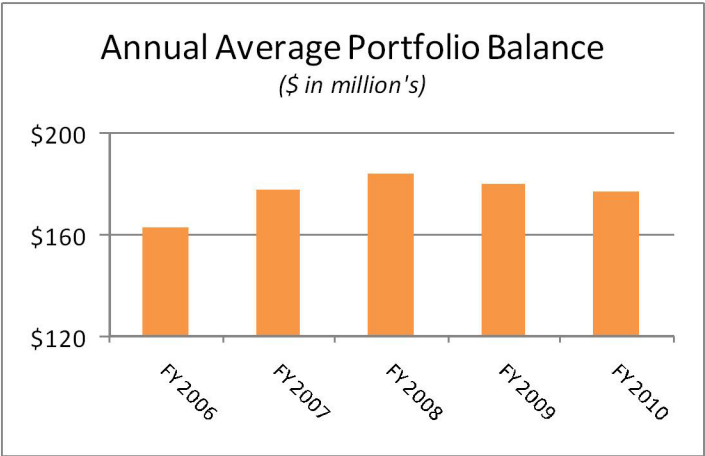


Cash and Interest Earnings

Cash Available for Investment

For FY 2010, the average monthly portfolio cash balance totaled **\$177 million**, approximately 2% (\$3.2 million) less than the previous year. The highest portfolio balance was \$188,140,678 for the month of April 2010, and the low was \$158,602,997 for the month of November 2009.

The chart shows that the City's cash available for investment over the past five years.

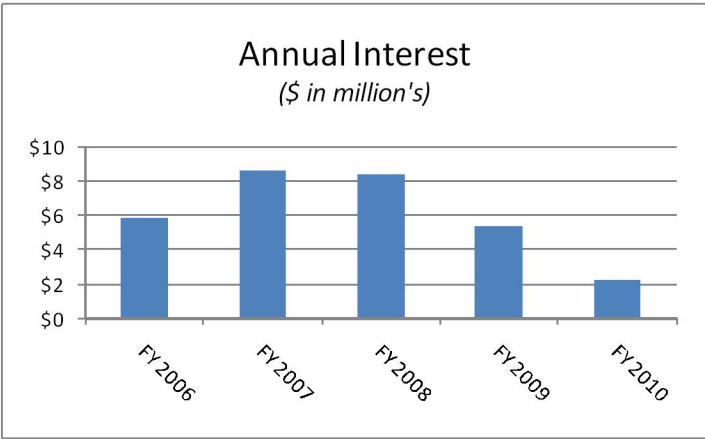


Over the past five years, cash available for investment has averaged \$176 million, while annual interest has averaged \$6.1 million.

Interest Earnings

For FY 2010, unaudited interest income totaled **\$2.249 million**, an approximately 58% (\$3.2 million) decline from the previous year. The decline in interest earnings was due to low interest rates available for investment, due to the severe economic recession. The chart shows the change in annual interest income over the past five years.

In FY 2010, the City budgeted \$2,213,215 million in interest revenue. Unaudited interest income totals \$2,249,087, which is approximately 2% more (\$35,872) than anticipated.



Monthly Maturity Comparison

Same day investments averaged **67%** in FY 2010.

A portfolio has the appropriate level of liquidity if needed portions of it can be 1) converted into cash to meet obligations, and 2) take advantage of market conditions.

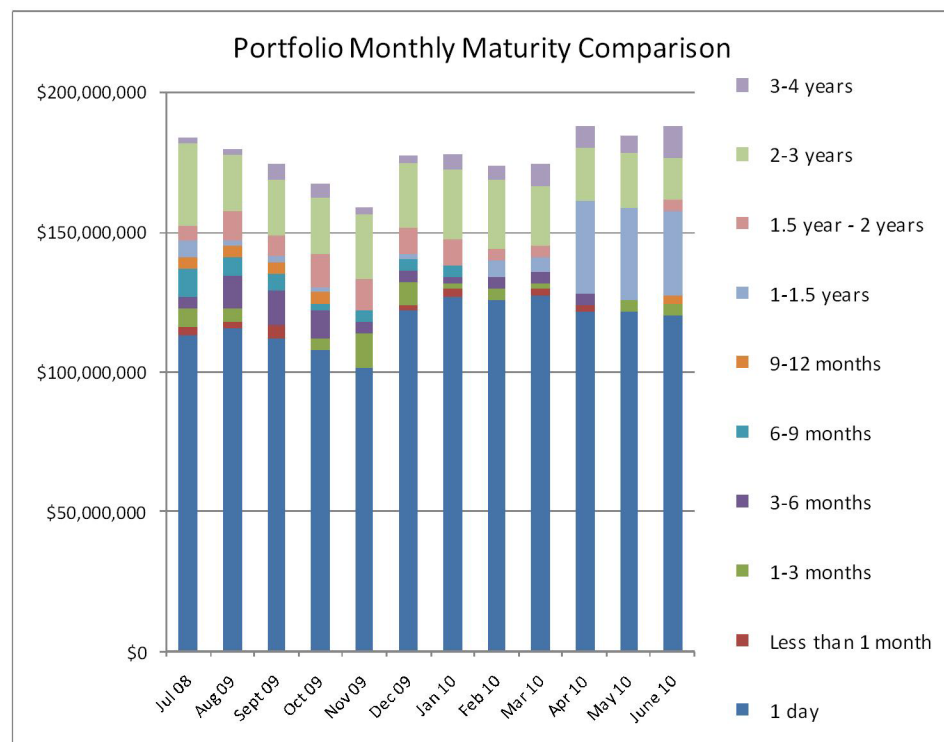
Of the two factors above, the need to meet obligations is the most critical. LAIF is the investment of choice for this purpose. LAIF offers the City overnight liquidity at rates that are equivalent to other short-term investment types, with the added benefit of daily withdrawal being available. Throughout the year, available investment rates have declined. As the rates declined, a

larger percentage of the short-term portfolio were invested in LAIF. During period of declining rates, the LAIF yield is slow to decline due to its longer maturity period. As rates improve, staff will be evaluating other short term investment opportunities. To learn more about LAIF, visit <http://www.treasurer.ca.gov/pmia-laif>.

The following chart represents the portfolio's monthly maturity brackets. As can be seen in the chart, a large percentage of investments were in the 1 day liquidity range. Investment in LAIF represents the 1 day maturity period, and is indicated by the dark blue bar.



Securities are purchased in various maturity ranges in order to ensure liquidity.



Average Liquidity

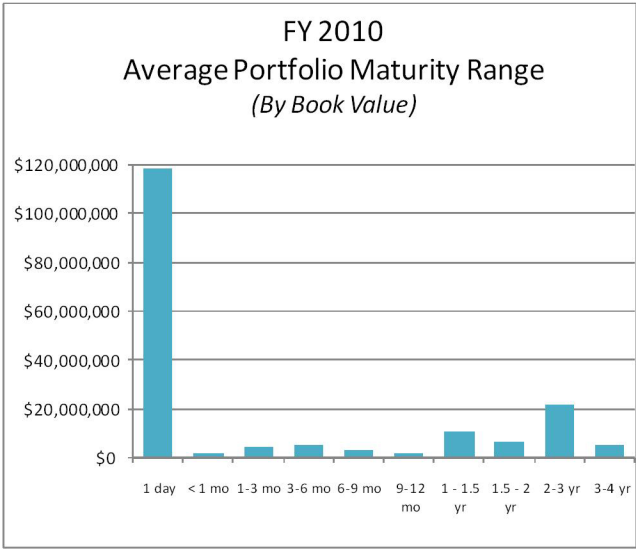
As rates declined, staff concentrated investments into LAIF.

LAIF and other short-term investments provide sufficient liquidity to more than cover foreseeable shortfalls in cash resulting from the normal variability of many revenue sources. Any investments in the portfolio could be sold immediately if the need arose, although it is generally the City’s practice to hold investments until maturity.

The chart shows the average maturity periods for FY 2010. As can be seen in the chart, a large portion of the portfolio’s one day maturity was invested into LAIF; mainly due to the declining rates of other short-term investments. In the

future, when rates improve, the portfolio will be laddered between a larger number of maturity ranges.

In November 2009, LAIF deposit limits were increased from \$40 to \$50 million per account. The City of Hayward has three such accounts. During the annual City Council review in October 2010, staff will be recommending the Statement of Investment Policy be amended to reflect an increase in use of the LAIF as a valuable short-term investment option, and that it may be used up to the maximum permitted by California State Law.



Fair Market Value—Mark to Market

The City is required to report the portfolio’s fair market value each June 30th. This information is reported in the Annual Comprehensive Annual Financial Report (CAFR). For FY 2010, the unaudited fair market value shows a positive gain of **\$212,334**.

The value at maturity of all securities in the portfolio is not affected by this calculation. What is demonstrated is the movement in bond prices associated with changes in bond market yields. Since bond yields and bond prices move

in opposite directions, any overall decrease in market value interest rates serve to increase the price of existing holdings.

Through revisions of the monthly investment report, monthly market value information was not presented in FY 2010. Going forward, monthly market value information will be presented in quarterly reports, as recommended in the City’s policy.

Market value information is provided monthly through the Bank of the West safekeeping statements.



To ensure adequate cash is available, the City monitors its cash position daily, satisfying its obligations and investing the remaining cash.



Market value is the current price at which investors are willing to buy or sell a bond at a given time.

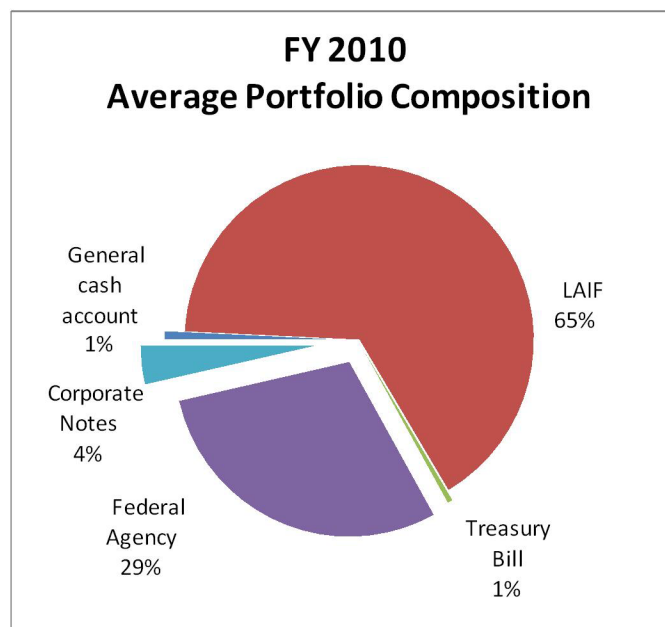


Portfolio composition describes the make-up of the portfolio by security type.

Portfolio Make-Up

A diverse portfolio adds value and safety.

The investment program invested in diverse security types in order to better meet its safety, liquidity, and yield requirements. Diversifying security issuers and types, along with correlating investment maturities with cash flow needs dilutes risk. The chart shows the average composition of a monthly FY 2010 portfolio. As can be seen from the graph, the portfolio is diversified among several security types, with LAIF being a diversified investment, in that LAIF is composed of various security types.



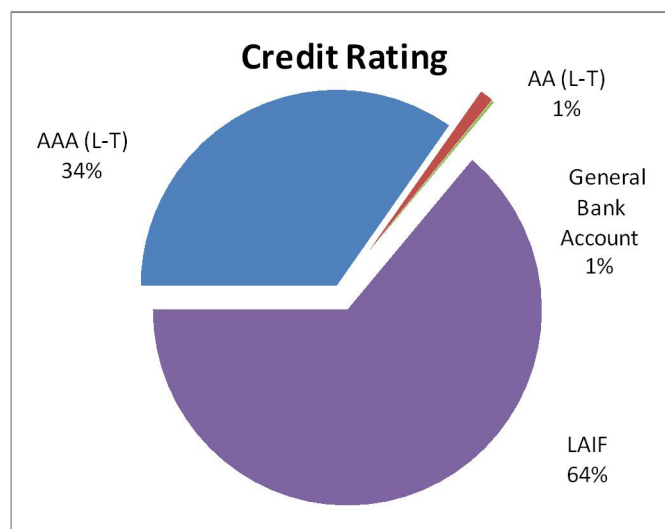
A credit rating assesses the credit worthiness of a corporation. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells an investor the probability of the subject being able to pay back a bond.

Credit Worthiness

Security credit ratings are monitored monthly.

The graph presents the portfolio investments' by credit ratings as of June 30, 2010. AAA and AA are long-term ratings (maturity of greater than one year). LAIF has not been issued a credit rating by a national rating agency and is listed separately. The AA slice represents one corporate security which will mature on August 9, 2010. The security is listed in the table below.

This medium term corporate note was purchased with an S&P rating of AA+, but has been downgraded to AA-. The AA- rating exceeds the Policy minimum rating "A" for a medium term note with a maturity of 2-3 years.



Company (# of issues)	S & P Rating	Total Amount (in millions)	Maturity Date
Wells Fargo	AA-	\$2	08/09/10

Oversight

The Investment Advisory Committee has met with Finance staff every quarter for more than fourteen years.

The purpose of Investment Advisory Committee meetings is to review investment strategy, approve new investment sources, discuss economic developments, monitor investment activity and consider proposed changes to investment practices and to the Statement of Investment Policy.

The result has been a focus on safe investing, improved investment standards, and improved investment quality. The Committee has provided an invaluable sounding board for staff concerns about the economy, the direction of interest rates, downgrading of well-rated issuers of securities, and a variety of other subjects related to the treasury operation.

Information is provided to the Committee monthly by the Finance Department. The Finance Director chairs the quarterly meetings, which include a briefing from the In-

vestment Officer on the status of the investment portfolio.

The Committee consists of the Assistant City Manager (currently vacant); the City Attorney (represented by Assistant City Attorney Conneely); two department heads appointed by the City Manager (represented by Maintenance Services Director McGrath and Fire Chief Bueno); a member of the Finance Academic community (represented by Professor Zock from California State University, East Bay (CSUEB)), and a member of the banking community (represented by Mr. Stoddard of Union Banc).

The contributions of Andrew Stoddard, VP of Institutional Sales from Union Banc, and Professor Zock of CSUEB, warrant particular attention and deserve particular thanks. These community members volunteer their time and expertise in economic and financial matters to participate as committee members. Their participation is invaluable to reviewing and maintaining a prudent and effective investment program.



The Investment Program is reviewed quarterly by the Investment Advisory Committee.

Accounting Requirements

Investment procedures and results are reviewed by independent auditors.

The City’s Comprehensive Annual Financial Report (CAFR) provides an annual disclosure of investment credit and concentration risk. The disclosure is a snapshot of the City’s investments (both City and Trustee held) as of June 30.

The purpose of the disclosure is to inform financial statement users about investment risks that could affect the City’s investments, and thus, affect the City’s ability to provide services and meet its obligations. The FY 2010 CAFR will be available in December 2010 and will contain the FY 2010 disclosure.



Independent auditors review the Investment Program.

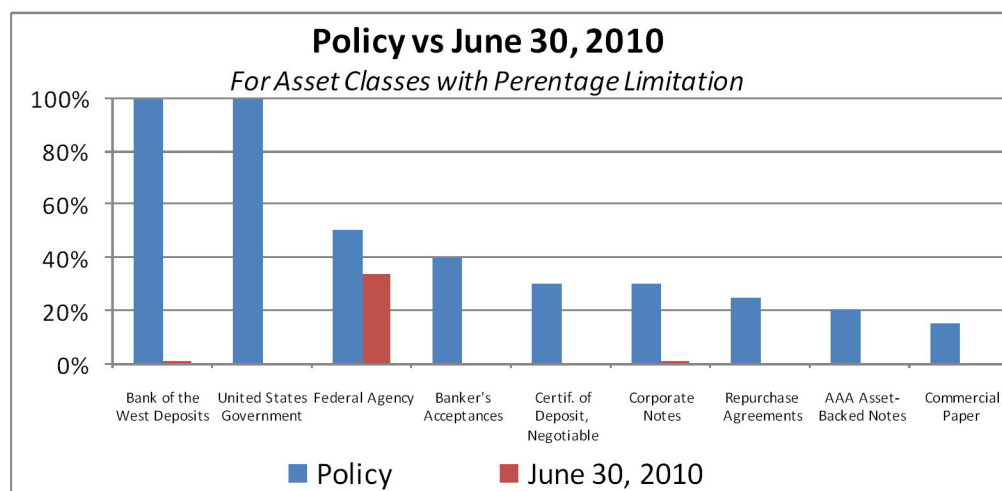


Internal Controls

Staff continued to monitor investment risk in order to maximize safety in FY 2010.

Internal controls are defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. The Statement of Investment Policy's internal control requirements were observed, to include:

1. Transactions were only completed with investment institutions that were qualified and approved by the Investment Advisory Committee.
2. All transactions were executed on a delivery-versus-payment basis. This
3. means that the City does not pay for securities until its title to them is confirmed.
3. Competitive bidding was the standard method of security procurement, and all bidders were pre-qualified by agreement to comply with the City policies. Furthermore, no addition to the bidders' list is made without the concurrence of the Investment Advisory Committee.
4. Investment practices followed written procedures in the Statement of Investment Policy; as previously approved by the City Council.
5. All investment instruments were secured through third-party custody and safe-keeping procedures by Bank of the West.
6. The City employed a computerized cash budgeting system, which plots expenditure requirements and income delivery for the entire year. Staff correlated investment maturities with cash flow needs as a matter of routine.



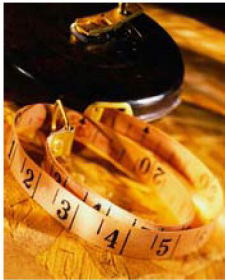
The chart provides a comparison between City Investment Policy limitations and June 30, 2010 investment portfolio holdings.

Policy Constraints

At June 30, 2010, the investment portfolio met policy limitations, however, during the months of December, January, February, and March, the policy was violated by over investing in the LAIF by up to \$5.7 million.

The Investment Policy sets guidelines and constraints to guide the investment program. These standards ensure a safe and prudent investment program. The Statement of Investment Policy sets three major maturity constraints to insure liquidity and other constraints to support safety and diversification. The chart provides a comparison between the policy and the investment program.

Policy	—> Program
1. The City shall not invest in instruments whose maturities exceed four years at the time of purchase. State law allows five-year maturities, but City policy is more restrictive than State law.	—> As of June 30, 2010, and throughout the year, all securities that were purchased matured within four years.
2. No more than 40% of the portfolio shall be invested beyond twelve months.	—> As of June 30, 2010, 32% of the portfolio was invested in maturities beyond one year. The City's portfolio met this requirement for each month during FY 2010.
3. The average maturity of portfolio investments shall not exceed 400 calendar days.	—> As of June 30, 2010, the portfolio's average weighted maturity was 229 days. The City's portfolio met the average maturity requirement each month during FY 2010.
4. Medium Term Corporate Note securities purchased must be rated: Term: 1 day—2 years = "A" Term: 2-3 Years = "A+" Term: 3-4 Years = "AA"	—> As of June 30, 2010, the City held one medium term corporate security whose rating was AA-. The rating complies with the City's Policy. The City did not purchase any medium term corporate securities in FY 2010.
5. Local Agency Investment Fund (LAIF) investments have a maximum of \$40 million per account. The City currently has three LAIF accounts, therefore, the maximum deposit in LAIF is \$120 million. Effective November 16, 2009, LAIF increased the per account deposit limit from \$40 to \$50 million. The change was recommended based on the needs voiced by local government participants.	Following the LAIF policy change, which increased the maximum deposit amount, staff exceeded the City's policy limit of \$120 million for four months. The overages were as follows: \$1.5 million (December 2009), \$1 million (January 2010), \$5.7 million (February 2010), and \$4.5 million (March 2010). The over investment in LAIF was a policy violation and was not called out in the monthly reports. Staff corrected the issue in April 2010 and ended the year by meeting all policy requirements. Staff advised the Investment Advisory Committee of this issue during the July 28, 2010 quarterly meeting. For FY 2011, staff is recommending updating the City Investment Policy so that LAIF may be used up to the maximum allowable by LAIF.



Actual results are measured against the policy to ensure compliance.

Future Investment Strategy



What does the future look like? Investment strategy requires assumptions about the future.

The investment strategy going into FY 2011 is to selectively extend maturities to take advantage of interest rates and to evaluate investment in LAIF. As always, emphasis is placed upon safety and liquidity. The City continues to invest in highly rated government securities which are not backed by mortgages and staff will closely consider financial markets before beginning to invest in corporate notes.

The rate-setting Federal Reserve Open Market Committee maintained the zero to .25% federal funds rate as of June 2010. For FY 2011 interest rate estimates continue to be low. In the upcoming year, national economic information will be reviewed for its affect on rates available for investment.

Interest rates

Percent	2009		2010				Annual averages			End of period		
	3QA	4QA	1QA	2QA	3QE	4QE	2009E	2010E	2011E	2009E	2010E	2011E
Federal funds rate	0.13	0.13	0.13	0.13	0-0.25	0-0.25	0.13	0.12	0.44	0.1	0-0.25	1.0
2-year government notes	1.0	1.1	1.0	0.6	0.7	0.8	1.0	0.8	1.3	1.1	0.8	1.8
10-year government notes	3.3	3.9	3.8	3.0	3.0	3.3	3.3	3.3	3.7	3.9	3.3	4.0

Note: Quarterly forecasts are for end of period yields.

Source: Federal Reserve Board and UBS estimates

Reference: UBS US Economic Perspectives, July 9, 2010.

Attachments



1. FY 2010 Purchase Report
2. FY 2010 Maturity Report
3. FY 2010 Sale/Call Report

Prepared by:
Budget Administrator
Denise.blohm@hayward-ca.gov



City of Hayward
Purchases Report
Sorted by Purchase Date - Investment Number
July 1, 2009 - June 30, 2010

CUSIP	Investment #	Fund	Sec. Type	Issuer	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued Interest at Purchase	Rate at Purchas	Maturity Date	YTM	Ending Book Value
912795R60	487	950	TRD	USG	2,000,000.00	07/02/2009	12/31 - At Maturity	1,997,067.78		0.290	12/31/2009	0.290	0.00
31331VX27	488	950	FAC	FFCB	3,000,000.00	07/02/2009	08/11 - 02/11	3,087,420.00	Sold	5.180	02/11/2010	0.379	0.00
SYSGeneral Cash	General Cash	950	PA3	BOW2	3,507,335.25	07/01/2009	07/01 - Monthly	3,507,335.25					410,173.96
31331GP45	489	950	MC1	FFCB	3,000,000.00	09/10/2009	03/10 - 09/10	3,000,000.00		2.000	09/10/2012	2.000	3,000,000.00
3133XURR6	490	950	FAC	FHLB	3,000,000.00	09/15/2009	11/15 - 05/15	3,000,000.00		1.950	11/15/2012	1.950	3,000,000.00
3133XUYD9	491	950	MC1	FHLB	3,000,000.00	10/05/2009	04/05 - 10/05	3,000,000.00		2.000	10/05/2012	2.000	3,000,000.00
31331GX53	492	950	MC1	FFCB	2,000,000.00	10/15/2009	04/15 - 10/15	2,000,000.00		2.000	10/15/2012	2.000	2,000,000.00
3133XVCB5	493	950	MC1	FHLB	2,000,000.00	10/15/2009	04/15 - 10/15	2,000,000.00		1.900	10/15/2012	1.900	2,000,000.00
3133XWM22	494	950	MC1	FHLB	3,000,000.00	01/22/2010	07/22 - 01/22	3,000,000.00		2.200	07/22/2013	2.200	3,000,000.00
31331JB1	495	950	MC1	FFCB	2,000,000.00	01/14/2010	07/14 - 01/14	2,000,000.00		2.000	01/14/2013	2.000	2,000,000.00
3133XX7H4	496	950	MC1	FHLB	3,000,000.00	03/10/2010	09/03 - 03/03	3,000,000.00	1,225.00	2.100	09/03/2013	2.100	3,000,000.00
31331G6F1	497	950	FAC	FFCB	3,000,000.00	04/22/2010	06/09 - 12/09	3,000,660.00	6,317.50	0.570	06/09/2011	0.550	3,000,660.00
3133XRRU6	498	950	FAC	FHLB	5,000,000.00	04/22/2010	07/03 - 01/03	5,177,650.00	54,878.47	3.625	07/01/2011	0.641	5,177,650.00
3133XXDR5	499	950	FAC	FHLB	5,000,000.00	04/22/2010	08/31 - Final Pmt.	5,000,000.00	4,861.11	0.700	09/02/2011	0.700	5,000,000.00
3133XRY46	500	950	FAC	FHLB	5,000,000.00	04/22/2010	09/09 - 03/09	5,205,650.00	22,395.83	3.750	09/09/2011	0.749	5,205,650.00
31331Y3P3	501	950	FAC	FFCB	5,000,000.00	04/22/2010	10/03 - 04/03	5,199,000.00	9,236.11	3.500	10/03/2011	0.730	5,199,000.00
31331JPP2	502	950	MC1	FFCB	5,000,000.00	06/23/2010	09/02 - Final Pmt.	5,000,000.00	5,833.33	2.000	12/02/2013	2.000	5,000,000.00
Total Purchases					57,507,335.25			58,174,783.03	104,747.35				49,993,133.96

City of Hayward
Maturity Report
Sorted by Maturity Date
Receipts during July 1, 2009 - June 30, 2010

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
31331VQ66	354	950	FAC	FFCB	2,000,000.00	07/20/2009	01/18/2007	5.375	2,014,640.00	53,750.00	2,053,750.00	39,110.00
31331VQ66	365	950	FAC	FFCB	2,000,000.00	07/20/2009	02/14/2007	5.375	2,012,360.00	53,750.00	2,053,750.00	41,390.00
3133M9FC1	464	950	FAC	FHLB	3,000,000.00	08/14/2009	06/13/2008	6.500	3,112,920.00	96,958.33	3,096,958.33	-15,961.67
36962GZHO	440	950	MC3	GECC-1	2,000,000.00	09/15/2009	02/15/2008	4.625	2,048,900.00	46,250.00	2,046,250.00	-2,650.00
31331XBQ4	366	950	FAC	FFCB	1,000,000.00	10/23/2009	02/14/2007	5.000	998,560.00	25,000.00	1,025,000.00	26,440.00
36962GZ31	443	950	MC3	GECC-1	3,625,000.00	10/27/2009	03/18/2008	5.250	3,756,623.75	95,156.25	3,720,156.25	-36,467.50
912795R60	487	950	TRD	USG	2,000,000.00	12/31/2009	07/02/2009	0.290	1,997,067.78	2,932.22	2,000,000.00	2,932.22
949746JJ1	422	950	MC3	WFC	2,000,000.00	01/15/2010	12/26/2007	4.200	1,999,080.00	42,000.00	2,042,000.00	42,920.00
313385SN7	474	950	FAD	FHDN	5,000,000.00	02/01/2010	02/04/2009	0.980	4,950,727.78	49,272.22	5,000,000.00	49,272.22
31331VX27	488	950	FAC	FFCB	3,000,000.00	02/11/2010	07/02/2009	5.180	3,087,420.00	77,700.00	3,077,700.00	-9,720.00
391648AT9	426	950	MC3	WFC5	2,000,000.00	04/15/2010	12/26/2007	5.125	2,031,300.00	51,250.00	2,051,250.00	19,950.00
3133MBJA6	476	950	FAC	FHLB	2,000,000.00	05/14/2010	02/18/2009	7.625	2,157,360.00	75,826.39	2,075,826.39	-81,533.61
Total Maturities					29,625,000.00				30,166,959.31	669,845.41	30,242,640.97	75,681.66

**City of Hayward
Sales/Call Report
Sorted by Investment Number - Fund
July 1, 2009 - June 30, 2010**

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date Matur. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
447												
89233PV60	447	950	TOY MC3	04/28/2008	10/06/2009 04/28/2010	2,000,000.00	2.850	1,993,000.00	2,024,400.00	25,016.67	2,049,416.67 Sale	56,416.67
Subtotal						2,000,000.00		1,993,000.00	2,024,400.00	25,016.67	2,049,416.67	56,416.67
451												
3133XQR61	451	950	FHLB MC1	04/24/2008	07/21/2009 10/21/2011	2,000,000.00	3.125	1,980,000.00	2,000,000.00	15,625.00	2,015,625.00 Call	35,625.00
Subtotal						2,000,000.00		1,980,000.00	2,000,000.00	15,625.00	2,015,625.00	35,625.00
453												
3133XR5S5	453	950	FHLB MC1	05/19/2008	11/19/2009 11/19/2010	2,000,000.00	3.250	2,000,000.00	2,000,000.00	32,500.00	2,032,500.00 Call	32,500.00
Subtotal						2,000,000.00		2,000,000.00	2,000,000.00	32,500.00	2,032,500.00	32,500.00
468												
31331Y5T3	468	950	FFCB MC1	08/14/2008	08/11/2009 08/11/2011	4,000,000.00	4.000	4,000,000.00	4,000,000.00	80,000.00	4,080,000.00 Call	80,000.00
Subtotal						4,000,000.00		4,000,000.00	4,000,000.00	80,000.00	4,080,000.00	80,000.00
477												
31331GNP0	477	950	FFCB MC1	03/02/2009	03/02/2010 03/02/2012	2,000,000.00	2.370	1,999,600.00	2,000,000.00	23,700.00	2,023,700.00 Call	24,100.00
Subtotal						2,000,000.00		1,999,600.00	2,000,000.00	23,700.00	2,023,700.00	24,100.00
478												
31331GNP0	478	950	FFCB MC1	03/03/2009	03/02/2010 03/02/2012	2,000,000.00	2.370	1,999,000.00	2,000,000.00	23,700.00	2,023,700.00 Call	24,700.00
Subtotal						2,000,000.00		1,999,000.00	2,000,000.00	23,700.00	2,023,700.00	24,700.00
479												
3133XTE93	479	950	FHLB MC2	04/16/2009	10/06/2009 10/06/2011	3,000,000.00	1.050 V	3,000,000.00	3,000,000.00	15,750.00	3,015,750.00 Call	15,750.00
Subtotal						3,000,000.00		3,000,000.00	3,000,000.00	15,750.00	3,015,750.00	15,750.00
480												
31331GSM2	480	950	FFCB MC1	04/16/2009	09/17/2009 04/09/2012	3,000,000.00	2.050	2,998,500.00	3,000,000.00	26,991.67	3,026,991.67 Call	28,491.67
Subtotal						3,000,000.00		2,998,500.00	3,000,000.00	26,991.67	3,026,991.67	28,491.67

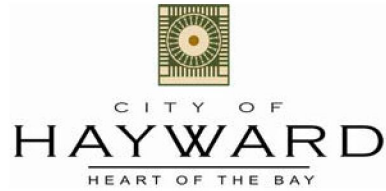
V - Security with variable rate change.

**City of Hayward
Sales/Call Report
July 1, 2009 - June 30, 2010**

Attachment II
Page 2

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date Matur. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
481												
31331GTK5	481	950	FFCB MC1	04/20/2009	04/20/2010 04/20/2012	2,000,000.00	2.020	2,000,000.00	2,000,000.00	20,200.00	2,020,200.00 Call	20,200.00
Subtotal						2,000,000.00		2,000,000.00	2,000,000.00	20,200.00	2,020,200.00	20,200.00
482												
3133XTQX7	482	950	FHLB MC1	06/09/2009	01/27/2010 06/09/2011	2,000,000.00	1.150	2,000,000.00	2,000,000.00	3,066.67	2,003,066.67 Maturity	3,066.67
Subtotal						2,000,000.00		2,000,000.00	2,000,000.00	3,066.67	2,003,066.67	3,066.67
483												
31331GWL9	483	950	FFCB MC1	05/22/2009	05/20/2010 05/20/2013	2,000,000.00	2.500	2,000,000.00	2,000,000.00	25,000.00	2,025,000.00 Call	25,000.00
Subtotal						2,000,000.00		2,000,000.00	2,000,000.00	25,000.00	2,025,000.00	25,000.00
484												
3133XTS31	484	950	FHLB MC2	06/09/2009	09/09/2009 06/09/2011	3,000,000.00	0.750 V	2,988,000.00	3,000,000.00	0.00	3,000,000.00 Call	12,000.00
Subtotal						3,000,000.00		2,988,000.00	3,000,000.00	0.00	3,000,000.00	12,000.00
486												
3133XTWK8	486	950	FHLB MC1	06/24/2009	06/22/2010 06/22/2012	2,000,000.00	2.250	2,000,000.00	2,000,000.00	22,500.00	2,022,500.00 Call	22,500.00
Subtotal						2,000,000.00		2,000,000.00	2,000,000.00	22,500.00	2,022,500.00	22,500.00
Total Sales						31,000,000.00		30,958,100.00	31,024,400.00	314,050.01	31,338,450.01	380,350.01

V - Security with variable rate change.



FY 2011

Statement of Investment Policy

Finance Department
Director of Finance, Debra Auker
Policy Recommended Changes: September 14, 2010

Policy last amended: January 9, 2007

FY 2011 - Statement of Investment Policy

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FY 2011 - Statement of Investment Policy

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process.

The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

It is intended that this policy covers all short-term operating funds and investment activities under the direct authority of the City.

- A. **Included** – Funds included in this policy are described in the City's annual financial report, and include: General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds, Redevelopment Agency Funds, and Housing Finance Agency Funds. The investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds.
- B. **Excluded** – The following funds are excluded from the policy: Deferred Compensation Fund assets and investments, whereas investments of these monies are directed by each employee in accordance with the rules of the Deferred Compensation Plan of the City; and employer and employee deposits into both the PARS and PERS Fund.
- C. **Other excluded funds** - Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the City, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements may be invested in accordance with the ordinance, resolution, indenture or agreement approved by the City Council which govern the issuance of those bonds, or lease installment sale, or other agreement, rather than this Statement of Investment Policy.

II. Objectives

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

FY 2011 - Statement of Investment Policy

In managing the City Of Hayward's Investment Portfolio, the City's primary objectives are safety, liquidity and yield.

1. **Safety** of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
2. **Liquidity** - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements.
3. **Yield** - The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
4. **Goal Yield** - The investment portfolio shall be managed with the objective of regularly exceeding by 50 basis points, the average of three-month and six-month U.S. Treasury Bill rates for the equivalent period. These indices are considered benchmarks for risk-less investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.
5. **Diversification** - The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Finance Director shall seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value or market direction is a requirement of active portfolio management.

III. Use of State Investment Guidelines

Government Code Sections 16481.2, 53601, 53607, 53635, and 53646 of the State of California regulate the investment practices. It is the policy of the City of Hayward to use the State's provisions for local government investments as the base for developing and implementing the City's investment policies and practices.

IV. Delegation of Authority

In accordance with Section 53607 of the California Government Code, the responsibility for conducting the City's investment program is delegated to the Finance Director, who has established written procedures for the operation of the investment program, consistent with this investment policy, which also govern delegation of authority for all investment activities.

V. Investment Advisory Committee

The City Manager will appoint an Investment Advisory Committee (IAC) for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the Council. The IAC shall consist of the Assistant City Manager, Finance Director, City Attorney, a representative of California State University, East Bay, a member of the financial community, and two department heads chosen by the City Manager.

The IAC shall meet at least quarterly to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the goal rate of return on the investment portfolio. Written investment procedures must be approved by the IAC.

VI. Investment Policy Adoption

The City's investment policy shall be formally reviewed and approved by the Investment Advisory Committee, not more than 120 days after the beginning of each fiscal year; and, thereafter shall be reviewed and approved by the City Council at a public meeting.

As required under Government Code Sections 16481.2 and 53646, the Statement of Investment Policy will be reviewed by the Council annually.

VII. Reporting

The following investment activity reports will be completed.

A. Quarterly

Within 30 days of the end of each quarter, the Finance Director shall submit a quarterly investment report to the City Manager, City Council, and Investment Advisory Committee, as required by California Government Code 53607.

The text of report shall highlight key aspects of information contained in the investment report schedules, and inform readers of economic conditions affecting the portfolio. The report will present recent investment performance and future investment strategy; disclose any perceived threats to portfolio quality, security or liquidity; compare the average portfolio investment yield with the portfolio goal yield.

Graphs, charts or schedules of the report shall itemize investment purchases, sales and maturities and indicate their effect on portfolio value. The report will itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate. The report will show the average earning rate for the portfolio, indicate distribution of the portfolio by category; and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

B. Monthly

Within 30 days of the end of each month, the Finance Director shall submit an investment summary

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to the City Manager and Investment Advisory Committee. For those months where a quarterly investment report is published, the quarterly investment report will serve as both the monthly investment summary and the quarterly investment report.

The investment summary will report key aspects of the investment portfolio, to include information about the type of each investment instrument, issuer, par and dollar amount, purchases, sales, gains and losses, maturity dates, credit ratings, and the percentage of the portfolio by each type of investment.

C. Annual

Within 90 days of the fiscal year end, the Finance Director shall present a comprehensive annual report on the investment program and investment activity. This report shall be presented to the Investment Advisory Committee. The annual report shall include twelve-month comparisons of return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

In conjunction with its review of the annual investment report, the Investment Advisory Committee shall review and reaffirm the Statement of Investment Policy of the City, whether or not specific policy modifications are suggested as part of the annual report.

Following the annual review of the Statement of Investment Policy by the Investment Advisory Committee, the Investment Policy shall be submitted to the City Council together with any changes recommended by the Investment Advisory Committee. The City Council shall consider any such recommended changes and annually reaffirm the Statement of Investment Policy at a public meeting of the City Council.

D. Other Reporting

The City shall comply with such requirements which may be enacted by amendment to the government code relating to investment practices which provide for transmitting to state agencies copies of annual reports and the Statement of Investment Policy.

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VIII. Investment Instruments

A summary of authorized investment instruments is below. Following the summary, a detailed description of each investment instrument is provided.

INVESTMENT INSTRUMENT SUMMARY				
Security Type	Maximum Maturity	Min Credit Quality	Authorized Investment Limit	Per Issuer Limit
A. US Treasury Notes/Bills	4 Years	None	100%	100%
B. US Agencies – Fully Backed	4 Years	None	100%	100%
B. US Agencies – Sponsored	4 Years	None	50%	20%
C. Banker's Acceptance (BA)	180 days	A-1/P-1	40%	30%
D. Commercial Paper	270 days	A-1/P-1	15%	10%
E. Negotiable Certificates of Deposit	4 Years	A to AA	30%	20%
F. Repurchase Agreements	1 Year	None	25%	20%
F. Reverse Repurchase Agreement	92 Days	None	20%	20%
G. Medium Term Notes (MTN)	2-4 Years	A to AA	30%	20%
H. Mutual Funds	Limited to bond proceeds only.			
I. Money Market Fund	2 Years	AAA	20%	10%
J. Asset-backed Corporate Notes	4 Years	AA	20%	20%
K. County Treasurer Pool	None	None	15%	20%
L. LAIF (1)	None	None	\$150 M	N/A
M. Certificates of Deposit	4 Years	None	25%	20%

The following sections describe individual investment types. The sections specify a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. If subsequent to purchase, securities are downgraded below the minimum acceptable rating level, the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade (GC 53601.7 d).

Note (1): This Policy was amended in October 2010 to increase the authorized investment limit for LAIF from \$120 million to \$150 million, to agree with the increase in the maximum LAIF account balances set by the State (LAIF Board).

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- A. United States Treasury Notes, Bonds, Bills, or Certificates of Indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Description: Treasury securities are government bonds issued by the United States Department of the Treasury through the Bureau of the Public Debt. They are the debt financing instruments of the U.S. Federal government, and are often referred to simply as Treasuries. There are four types of treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Savings bonds. All of the Treasury securities (besides savings bonds) are very liquid and are heavily traded on the secondary market.

U.S. Treasury Securities	City Of Hayward	CA Govt Code 53601 (b)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	

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B. Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Description: The term "agency issues" is used to describe debt issues by Federal agencies in the United States. These special federal agencies are often created to channel credit to specific sectors of the economy (Freddie Mac for housing development for example). Although this debt is not explicitly insured by the federal government, it is assumed that the government will step forth if the agency nears default.

The government sponsored enterprises (GSEs) are a group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSEs operate in.

i. U.S. Agencies (fully backed)	City Of Hayward	CA Govt Code 53601 (e)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	
ii. U.S. Agencies (Government Sponsored Enterprise (GSE))	City Of Hayward	CA Govt Code 53601 (e)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	50%	None
Per Issuer Limit	20%	None
Other Requirement	None	

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C. Prime Banker's Acceptances (BA) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Description - A short-term credit investment created by a non-financial firm and guaranteed by a bank. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.

Banker's Acceptances	City Of Hayward	CA Govt Code 53601 (f), 53601.7
Maximum Maturity	Less than 180 days	Less than 180 days
Credit Rating Limit	A-1/P-1/F-1	A-1/P-1/F-1
Authorized Investment Limit	40%	40%
Per Issuer Limit	30%	30%
Other Requirement	<ul style="list-style-type: none"> • BAs which are eligible for purchase by the Federal Reserve System. • BAs that are issued by the top 50 banks in the world or any qualified depository in the State of California with a 4.5 percent equity to asset ratio. 	

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D. Commercial Paper (CP) of "prime" quality.

Description - An unsecured promissory note with a fixed maturity. Short-term corporate IOUs, generally due in less than a year and sold at a discount from face value.

Commercial Paper	City Of Hayward	CA Govt Code 53601 (g) 53635
Maximum Maturity	270 days or less	270 days or less
Credit Rating Limit	Highest letter and numerical rating as provided for by Moody's or Standard and Poor's rating services. (A-1/P-1/F-1)	A-1/P-1/F-1
Authorized Investment Limit	15%	25%
Per Issuer Limit	10%	10%
Other City Requirement	<p>The entity that issues CP shall meet all of the following conditions in either paragraph 1 or 2.</p> <p>(1) The entity meets the following criteria:</p> <p>(A) Is organized and operating in the United States as a general corporation.</p> <p>(B) Has total assets in excess of five hundred million dollars (\$500,000,000).</p> <p>(C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).</p> <p>(2) The entity meets the following criteria:</p> <p>(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.</p> <p>(B) Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond.</p> <p>(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).</p>	

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E. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank.

Description - A CD with a very large denomination, usually \$1 million or more. These are usually bought by institutional investors who are interested in low-risk investments. Negotiable certificates of deposit are usually in bearer form, and have secondary markets that are highly liquid.

Negotiable CD	City Of Hayward				CA Govt Code 53601 (h)
Maximum Maturity	6 mo to 1 year	1 -2 Years	2-3 Years	3-4 Years	5 Years
Credit Rating Limit	Min A-2/ P-2 rating	Min A rating	Min A+ rating	Min AA rating	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	30%				30%
Per Issuer Limit	20%				None
Other Requirement	None				

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F. Repurchase Agreements or Reverse Repurchase Agreements

Description - purchase of portfolio securities by an investor with a simultaneous agreement to resell the securities back to the seller on a specific future date, at the original purchase price, plus a negotiated interest payment. This transaction should be secured or made safe with collateralization.

Repurchase agreement means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

Reverse repurchase agreement means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	1 Year	1 Year
Credit Rating Limit	Depends on underlying asset.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed in this policy, under Section VIII, Investment Instruments. Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. Securities shall be marked-to-market daily, and shall be maintained at a value equal to or greater than the cash investment. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. At the time of purchase the market value of the securities shall be in excess of the cash investment. All securities purchased under a repurchase agreement shall be held by a third-party custodian or safekeeping agent. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security. The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality, and liquidity. "Retail" repurchase agreements shall not be authorized for purchase. As soon as possible a master repurchase agreement shall be executed between the City and all trading partners. 	

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Reverse Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	92 days	1 year
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term. See limits for individual investment securities.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> • The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale. • The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio. • The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes • A written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency. 	

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G. Medium-Term Notes (MTN)

Description - Corporate promissory notes of 9-month to 15-year duration sold through dealers on a continuously offered basis. Like certificates of deposit, MTNs can be either collateralized or unsecured. Issuers include banks and savings and loans, insurance companies and corporations.

Medium Term Corporate	City Of Hayward			CA Govt Code 53601 (j)
Maximum Maturity	1 day to two years	Two to three years	Three to four years	5 Years
Credit Rating Limit	Minimum A rating	Minimum A+ rating	Minimum AA rating	A
Authorized Investment Limit	30%			30%
Per Issuer Limit	20%			N/A
Other Requirement	<ul style="list-style-type: none"> Securities must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. 			

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H. Mutual Funds

Description - A mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds). When you invest in a mutual fund, you are buying shares (or portions) of the mutual fund and become a shareholder of the fund.

Mutual Funds	City of Hayward	CA Govt Code 53601 (k), 53601.7
Maximum Maturity	180 days or less	None
Credit Rating Limit	The funds must be rated in the highest category of Moody's or Standard and Poor's, or must be administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or Standard and Poor's.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	10%
Other Requirement	<ul style="list-style-type: none"> Eligible for purchase, provided that use of mutual funds shall be limited to bond proceeds for which the City Treasurer finds a mutual fund's accounting methods particularly suited to the accounting requirements of the bond issue and helpful with arbitrage calculations. 	

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I. Money Market Funds

Description: Money market securities are essentially IOUs issued by governments, financial institutions and large corporations. These instruments are very liquid and considered extraordinarily safe. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities.

Money Market Funds	City of Hayward	CA Govt Code 53601 (k)
Maximum Maturity	2 Years	None
Credit Rating Limit	AAA by two NRSROs.	Highest ranking by two NRSROs.
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	N/A
Other Requirement	<ul style="list-style-type: none"> • Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations (NRSRO) or retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than ten years' experience managing money market mutual funds with assets under management in excess of one billion dollars (\$1,000,000,000). • The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge. • The City shall invest only in Money Market Funds that have a policy of maintaining a constant daily net asset value per share of \$1.00. 	

A thorough investigation of any money market fund or investment pool is required prior to investing, as well as on an ongoing basis. The following information should be obtained and analyzed:

- (i) A description of eligible investment securities.
- (ii) A written statement of investment policies and objectives.
- (iii) A description of interest calculation and their distribution, and the treatment of gains and losses.
- (iv) A description of how the securities are safeguarded and how often the securities are priced and the program audited.
- (v) Information about the size and frequency of deposits and withdrawals allowed, and how much notice is needed for withdrawals.
- (vi) A schedule for receiving statements and portfolio listings.
- (vii) A fee schedule, as well as how and when the fees are assessed.
- (viii) The rating of the pool/fund.
- (ix) Information about investment advisers, including registration with the Securities and Exchange Commission, length of experience and total assets under management.

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J. Asset-Backed Corporate Notes

Description: Asset-backed securities are bonds backed by a pool of physical or financial assets that cannot easily be traded in their existing form. By pooling together a large portfolio of these illiquid assets they can be converted into instruments that may be offered and sold more freely in the capital markets. A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage backed securities.

Asset-backed Corporate Notes	City Of Hayward		CA Govt Code 53601 (n)
Maximum Maturity	Bullet maturity = 4 years	Stated final maturity = 5 years	5 years
Credit Rating Limit	Issuer Rating of A or better.	Security Rating of AB themselves, AA or better.	AA
Authorized Investment Limit	20 % for AB securities alone.	40% for total of MTN and AB securities.	20%
Per Issuer Limit	10%		None
Other Requirement	<ul style="list-style-type: none"> Mortgage-backed corporate notes shall <u>not</u> be invested in. 		

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K. County Agency Investment Fund;

County Agency Pool	City Of Hayward	CA Govt Code 53684
Maximum Maturity	N/A	N/A
Credit Rating Limit	Not rated	N/A
Authorized Investment Limit	15%	N/A
Per Issuer Limit	10%	N/A
Other Requirement	N/A	

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L. State of California Local Agency Investment Fund (LAIF) –

Description: This is the fund in which the State of California pools its investments and the investments of California public agencies, which participate in LAIF. An agency participates by depositing funds in the State pool.

LAIF	City Of Hayward	CA Govt Code 16429.1
Maximum Maturity	None	None
Credit Rating Limit	None	None
Authorized Investment Limit (1)	\$150 Million	None
Per Issuer Limit	None	None
Other Requirement	<ul style="list-style-type: none"> • The current limit on any one City investment in this fund for the number of transactions (deposits or withdrawals) is limited to 15 per month. • The City maintains a total of three LAIF investments (up to \$40 million each). • The City's participation in LAIF shall conform to State Regulation. • In general, it is the City's intention to use investment in LAIF as a temporary repository for short-term funds needed for liquidity purposes. • The Finance Director shall maintain on file appropriate information concerning LAIF's current investment policies, practices and performance. • The Finance Director shall maintain LAIF's requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio. 	

Note (1): This Policy was amended in October 2010 to increase the authorized investment limit for LAIF from \$120 million to \$150 million, to agree with the increase in the maximum LAIF account balances set by the State (LAIF Board).

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M. Certificates of Deposit

Description: A time deposit with a specific maturity evidenced by a certificate.

Certificates of Deposit	City Of Hayward	CA Govt Code 53601 (m)
Maximum Maturity	4 Year	5 Years
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	25%	None
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> • In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association. • The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union. 	

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IX. Prohibited Investments

Consistent with California Government Code 53601.6, inverse floaters, range notes, mortgage derived interest-only strips, or any security that could result in zero interest accrual if held to maturity are specifically prohibited, except to the extent that they are shares of diversified management companies registered under the Investment Company Act of 1940. The City shall not purchase any security rated A-1 and or A+ or below if that security has been placed on “credit watch” for a possible downgrade by either Moody’s Investor Services or Standard and Poor’s. Investments not specifically approved by this policy are prohibited.

X. Internal Controls

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include:

- **Clearly delegating authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- **Separating transaction authority from accounting and record keeping.** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Delivery versus payment.** All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution before the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.
- **Avoiding physical delivery securities.** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Confirming telephone transactions for investments and wire transfers in writing.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- **Developing wire transfer agreements with the lead bank or third party custodian.** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

XI. Evaluation of Investment Officer Actions

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

The City adheres to the guidance provided by the prudent investor standard which obligates a fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Investment officers acting in accordance with written procedures and the statement investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

XII. Bond Proceeds

The investment of bond proceeds will be made in accordance with applicable bond indentures.

XIII. Credit Downgrade

In the event that a financial institution or depository receives a Standard and Poor's, Moody's, Fitch or Keefe rating equal to or lower than Standard and Poor's rating of BBB, the Finance Director promptly shall make and implement an informed decision on whether to sell, withdraw from deposit or retain any security or deposit in the City portfolio issued or held by such affected financial institution or depository. The Finance Director may consult the Investment Advisory Committee on the action to be taken and shall advise its Chairman and Members of the final disposition of the matter either by memorandum or at the next Investment Advisory Committee meeting. If the meeting is scheduled more than a month after action is taken, the communication of disposition will be by memorandum.

XIV. Rating Agency Changes

In the event a security held by the City is the subject of a rate drop which brings it below accepted minimums specified herein, or the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels, the investment advisor who purchased the security will immediately notify the Finance Director of that fact.

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The course of action to be followed will then be decided on a case by case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The City Council will be advised of the situation and intended course of action by e-mail or fax.

XV. Banks and Security Dealer Selection

The Investment Advisory Committee shall approve all financial institutions from which securities are purchased or sold.

In selecting financial institutions for the deposit or investment of City funds, the Finance Director shall consider the creditworthiness of institutions. The Finance Director shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

Only primary government securities dealers that report to the New York Federal Reserve shall be used for the purchase of repurchase agreements. (It is acknowledged that inclusion on the primary dealer listing of the Federal Reserve Bank of New York is not a guarantee of creditworthiness.)

Effective October 14, 1987, the City shall be prohibited from investing funds with any person who is knowingly or intentionally engaged in the development or production of nuclear weapons. Person is defined as any person, Private Corporation, institution or other entity, which is within the jurisdiction of the City of Hayward.

XVI. Maturity and Diversification

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

It is City policy to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following strategies and constraints shall apply:

1. **Maintains Liquidity** - Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments of U.S. Treasury bills.
2. **Staggered Maturities** - Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
3. **Maturity Diversification** - Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
4. **Specific Diversification Limitations** – The City shall not invest in instruments whose maturities exceed four years at the time of purchase. Instruments with maturities greater than two years shall be limited to (1) U.S. Treasury and agency obligations; (2) medium term notes rated "A" or its

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equivalent or better by at least one of the four national rating services identified above; (3) certificates of deposit rated "A", its equivalent or better by at least one of the four national rating services identified above; and (4) asset-backed notes as regards the "bullet" maturity, provided the "stated final" maturity is not more than five years. The average maturity of the City's short-term portfolio shall not exceed one year.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the balance of the portfolio during a twelve-month period.

5. Specific diversification limitation shall be imposed on the portfolio as follows:

- a. No more than 40% of the portfolio may be invested beyond twelve months, and the average maturity of the portfolio shall not exceed 400 calendar days.

6. The maximum percentage of the total portfolio that shall be placed at any one time in each of the categories of investment is summarized below.

Security Type	Maximum Allowable Portfolio Percentage						
	100%	50%	40%	30%	25%	20%	15%
US Treasury Notes/Bills							
US Agencies – Fully Backed							
US Agencies – Government Sponsored Entities (GSE)							
LAIF							
Fully collateralized certificates of deposit	✓						
Fully collateralized medium term notes	✓						
Banker's Acceptance (BA)							
Negotiable Certificates of Deposit (NCD)				✓			
Medium Term Notes (MTN) (30 % alone, and no more than 40% when combined with AB category)				✓			
Asset-backed (AB) Securities (20% alone and no more than 40% when combined with the MTN category)						✓	
County Treasurer Pool							✓
Commercial Paper (CP)							✓

In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association.

XVII. Risk Tolerance

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

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The Finance Director shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity. All investment reports shall specifically address whether current investment results have been affected by any of the foregoing risks, and shall explain what actions investment officials have taken to control or correct for such risks.

In addition to these general policy considerations, the following specific policies will be strictly observed:

1. All investment funds will be placed directly with qualified financial institutions. The City will not deposit or invest funds through third parties or money brokers.
2. All transactions will be executed on a delivery versus payment basis.
3. The City will not enter into reverse repurchase agreements other than for cash flow requirements; nor shall it trade in options on future contracts unless, upon recommendation by the Investment Advisory Committee, such transactions are specifically authorized by the City Council.
4. A competitive bid process, utilizing financial institutions deemed eligible by the Investment Advisory Committee, will be used to place investment purchases. Based on annual evaluation, securities dealers, banks and other financial institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:
 - a. number of transactions competitively won
 - b. prompt and accurate confirmation of transactions
 - c. efficient securities delivery
 - d. accurate market information account servicing
5. The Finance Director shall designate an official to manage investments and designate a second official to perform investment management during absences of the primary designee. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements.
6. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

XVIII. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the City shall be secured through third-party custody and safekeeping procedures.

The investment official shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by an independent auditor. The auditor may conduct surprise audits of safekeeping and custodial procedures.

All cash and securities in the City's portfolio, shall be held in safekeeping in the City's name by a third party bank trust department, acting as agent for the City under the terms of a custody agreement

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executed by the bank and the City.

All securities will be received and delivered using standard delivery versus payment (DVP) procedures; the City's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; and, (ii) money market mutual funds, since the purchased securities are not deliverable.

Appendix A**Comparison and Interpretation of Credit Ratings ¹****Long Term Debt Ratings**

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Best-quality grade	Aaa	AAA	AAA
High-quality grade	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Speculative Grade	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
Low Grade	B1 B2 B3	B+ B B-	B+ B B-
Poor Grade to Default	Caa	CCC+	CCC
In Poor Standing	- -	CCC CCC-	- -
Highly Speculative Default	Ca C	CC -	CC -
Default	- - -	- - D	DDD DD D

Short Term/Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Superior Capacity	P-1	A-1+/A-1	F1+/F1
Strong Capacity	P-2	A-2	F2
Acceptable Capacity	P-3	A-3	F3

¹ These are general credit rating guidelines and are for information only.

Appendix B

Glossary

BANKER'S ACCEPTANCE: A money market instrument created to facilitate international trade transactions.

This instrument is highly liquid and safe because the risk of the trade transaction is transferred to the bank that "accepts" the obligation to pay the investor.

BANK DEPOSITS: Collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price at which a buyer offers to buy a security.

BOND: A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

BROKER: A broker brings buyers and sellers together for a transaction for which the broker receives a commission. Brokers generally do not hold inventory or make a market for securities.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC): CDIAC provides information, education and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE SECURITIES: An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

CALIFORNIA LOCAL AGENCY OBLIGATIONS: See Local Agency Bonds.

CAPITAL GAIN: The amount by which an asset's selling price exceeds its initial purchase price.

CAPITAL LOSS: The decrease in the value of an investment or asset below its initial purchase price.

CD (CERTIFICATE OF DEPOSIT): A CD is a note issued by a bank for a savings deposit that an individual agrees to leave invested in the bank for a certain term. At the end of this term, on the maturity date, the principal may either be paid to the individual or rolled over into another CD. Interest rates on CDs between banks are competitive. Monies deposited into a CD are insured by the bank, thus they are a low-risk investment. Maturities may be as short as a few weeks or as long as several years. Most banks set heavy penalties for premature withdrawal of monies from a CD. Large-denomination CD's are typically negotiable.

CFA INSTITUTE: CFA Institute is the global, not-for-profit association of investment professionals that awards the CFA (Chartered Financial Analyst®) designation. The Institute promotes the highest ethical standards and offers a range of educational opportunities online and around the world.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the

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purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: The short-term unsecured debt of corporations or companies.

CONVEXITY: Measures the rate of change in a bond's sensitivity to interest rate moves. It's the rate of change in a bond's duration (price volatility).

COUNTY POOLS: See County Pooled Investment Fund.

COUNTY POOLED INVESTMENT FUNDS: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK: The likelihood that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation.

CUSTODIAN: An agent such as a broker or a bank that stores a customer's investments for safekeeping. The custodian does not have fiduciary responsibilities.

DEALER: A dealer, as opposed to a broker, acts as a principal in security transactions, selling securities from, and buying securities for his/her own position.

DEFAULT: To default is to fail to repay principal or make timely interest payments on a bond or other debt investment security. Also, a default is a breach of or failure to fulfill the terms of a note or contract.

DELIVERY VERSUS PAYMENT (DVP): A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: The weighted average time to maturity of a bond where the weights are the present values of future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

FIDUCIARY: An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE INVESTMENTS: Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yield than fixed rate notes.

FUTURES: Commodities, which are sold to be delivered at a future date.

INVERSE FLOATING RATE INVESTMENTS: Variable-rate notes (such as inverse floating rate notes) whose coupon and value increase as interest rates decrease.

INTEREST ONLY STRIPS: Securities with cash flow based entirely on the monthly interest payments received from a mortgage pool.

INVESTMENT PROGRAM: The process of modern portfolio management. The process includes establishing investment policy, analysis of the economic and capital markets environment, portfolio monitoring and rebalancing, and measuring performance.

LOCAL AGENCY BONDS: These bonds are issued by a county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

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LOCAL AGENCY INVESTMENT FUND (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LIQUIDITY: The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.

MARKET RISK: Market risk is the risk that investments will change in value based on changes in general market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Unsecured, investment-grade senior debt securities of major corporations that are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODERN PORTFOLIO THEORY: overall investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return. This theory recommends that the risk of a particular investment should not be looked at on a standalone basis, but rather in relation to how that particular investment's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MORTGAGE BACKED SECURITIES: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay interest and principal on the bonds.

MORTGAGE PASS-THROUGH SECURITIES: A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUTUAL FUNDS: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. **Money market mutual funds** invest exclusively in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The principal objective is the preservation of capital and generation of current income.

OFFER: The price asked by a seller of securities. See Asked and Bid.

OPTION: A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities

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broker-dealers, banks, and a few unregulated firms.

PRINCIPAL ONLY STRIPS: Securities with cash flow based entirely on the monthly principal payments received from a mortgage pool.

RANGE NOTES: A range note is a bond that pays interest if a specified interest rate remains above or below a certain level and/or remains within a certain range.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP, Repo): Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a **reverse repurchase agreement**.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): A federal government agency comprised of five commissioners appointed by the President and approved by the Senate. The SEC was established to protect the individual investor from fraud and malpractice in the marketplace. The Commission oversees and regulates the activities of registered investment advisers, stock and bond markets, broker/dealers, and mutual funds.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STATE OBLIGATIONS: Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

STRIPS: Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

TRUSTEE: An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. AGENCY OBLIGATIONS: Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include, Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation, World Bank, Inter-American Development Bank and PEFCO.

U.S. TREASURY OBLIGATIONS (TREASURIES): Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark

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for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury Bills: All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury Bills (T-bills). The Treasury currently issues three-month and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows.

Treasury Notes: All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes), and pay interest semi-annually.

Treasury Bonds: All securities issued with initial maturities greater than ten years are called Treasury Bonds (T-bonds). Like Treasury Notes, they pay interest semi-annually.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gains. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ZERO-COUPON BOND: A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.